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Community-Led Social Venture Creation

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The addition of new enterprises to the economy has long been considered essential to economic growth. The process of venture creation in the private sector has been heavily researched and frequently modeled, although few models explain the process of nonprofit enterprise creation.

Nonprofit social ventures pursue economic, social, or environmental aims, generating at least part of their income from trading. They fill market gaps between private enterprise and public sector provision, and, increasingly, policy makers consider them to be valuable agents in social, economic, and environmental regeneration and renewal. This article presents findings from a qualitative study of the inception of five community-led nonprofit social ventures, producing a model of the stages of venture creation: (1) opportunity identification, (2) idea articulation, (3) idea ownership, (4) stakeholder mobilization, (5) opportunity exploitation, and (6) stakeholder reflection. A formal support network and a tailor-made support network are also part of the model, contributing resources to the new venture and assisting progression through the stages.

The model highlights the resource acquisition and network creation that precede formal venture creation. In the nonprofit sector, these activities are undertaken by volunteers who do not have a controlling interest in the new venture. For practitioners, the model identifies critical stages in the process of community-led social venture creation and two areas where assistance is most needed: pre-venture business support and postcreating effective networks.

Introduction

According to Gartner (1985), new venture creation is an outcome of the nexus of individuals, environment, and process. The process is complex and likely to vary widely between different entrepreneurs, environments, and types of enterprise. The aim of this article is to broaden the understanding of the process by presenting findings from a study of five nonprofit, community-led social ventures, established in a peripheral, rural region of northeast Scotland between 1998 and 2001. Community-led social ventures have the potential to deliver benefits over and above economic and financial outcomes as they are closely engaged with people with a shared interest in their creation and management. They have the potential to revitalize communities via meeting local needs, developing the capacity of a community to be independent, and generating social capital between individuals and communities. The trend for communities to take greater responsibility for their own socioeconomic development has emerged alongside the withdrawal of services that have traditionally been provided by the public sector. This has been in response to

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changes in government policy and expenditure priorities, and is most noticeable in the health and social care sectors. The withdrawal of public sector provision, however, has not been matched by a new supply by the private sector, especially in markets where the profit potential is limited. Under such conditions, community-led social ventures offer a potential response to market failure.

Qualitative data were gathered and used to construct a model describing community-led social venture creation as a six-stage process. Each stage consists of distinct activities and is embedded in a dual-network context—formal and tailor-made. First, the literatures relating to the process of new venture creation and the role of networks in the entrepreneurial process are reviewed. This is followed by an account of the nature of community-led social ventures and their role in promoting social, economic, and/or environmental regeneration and renewal. The qualitative methodology of the study is then explained, and the model and empirical data are presented.

Although based on a small, purposive sample of five community-led social ventures, the model highlights the essential stages preceding the establishment of a new enterprise and the powerful role of networks in contributing resources to the new venture. The pre-venture stages were found to be hidden from view, inadequately resourced, and reliant on the time and effort of volunteers. By making them and their need for resources explicit, the model has implications for policy makers engaged in the support and encouragement of the growth of social ventures.

The study advances our understanding of entrepreneurship by its exploration of entrepreneurial behavior in the nonprofit sector. The comparison of economic, social, and community-led entrepreneurship elucidates the similarities and distinctive characteristics of each type of behavior. The study provides evidence of how community-led social ventures have been created in a specific context and could subsequently be used as the foundation for future work to help social ventures improve their performance.

New Venture Creation

The creation of a new organization is the basic entrepreneurial act, and the study of behavioral processes related to it has been found to be worthwhile (Gartner, 1988). Entrepreneurial behavior involves all those functions, activities, and actions associated with perceiving opportunities and the creation of organizations to pursue them (Bygrave & Hofer, 1991). A new venture is created when an entrepreneur succeeds in mobilizing resources in response to perceived opportunities (Aldrich, 1995). Initially, the nascent entrepreneur will engage in pre-venture activities, such as searching for facilities and equipment, seeking and gaining financial support, establishing a legal format for the venture, organizing a team, buying facilities and equipment, and devoting time to the business (Carter, Gartner, & Reynolds, 1996). During this process, the entrepreneur will move from a position of no involvement, or consideration of starting a business, to active consideration and exploration. Wilken (1979) divides this stage into a motivation phase (entrepreneurs prepare to start the firm) and a planning phase (entrepreneurs prepare to create the firm by gathering knowledge and resources). The business is considered to be in gestation (Reynolds & Miller, 1992), or germinal (Chell, 2001), in that people, ideas, resources, and opportunities are in the process of being brought together while structures and systems have yet to be embedded.

In the pre-venture period of venture creation, the entrepreneur decides which resources to acquire and which effects and outcomes to hope to produce. Sarasvathy (2001a) describes the process of starting with the means to create an enterprise, and selecting between what might be created with those means, as *effectuation*. When effectuation is applied to new firm creation (Sarasvathy, 2001b), the entrepreneur is engaged in a process of choosing between alternative resources, resource bundles, and outcomes. Since each resource can be combined with other resources in different combinations to produce a unique bundle, each bundle will have its own constraints and possible outcomes. The effectuation process involves experimenting with different resource combinations to create potential gains in relation to affordable loss, the construction of alliances with stakeholders to handle uncertainty, the exploitation of contingencies that arise over time, and efforts to control the unpredictable rather than attempting to predict an uncertain future. Thus, venture creation by effectuation involves interaction and adaptation between the stakeholders, who create both the firm and the market. The interaction moves from a loose arrangement of stakeholders based on trust and working with ideas in germination to advancing on an idea, gathering resources, and ultimately creating an organization. This is a socially embedded process (Sarasvathy, 2004), characteristic of a community-led social venture creation wherein interaction and adaptation play a fundamental part.

Although pre-venture creation precedes venture creation, it is not always easy to define when an enterprise has been created. Katz and Gartner (1988) developed a helpful framework that identifies the four properties necessary and sufficient to constitute an organization: (1) intentionality, (2) resources, (3) exchange, and (4) boundaries. Intentionality is manifest in the purposeful seeking of information that could be applied toward achieving the goal of founding an organization. Resources are then needed to exploit the potential opportunity, and the prospective entrepreneur must engage in acts of social exchange in order to acquire or secure the use of them. At some point, boundaries are established to delineate the emerging organization from other associations and the environment, and after this, business operations commence. These four characteristics are universal to organizations, irrespective of their industry or purpose. Once in place, the new venture is considered to be established, and efforts then turn to the daily management of activities, exchanges, and problem solving (Wilken, 1979).

Many models map the process of new venture creation into a series of stages, or phases. Stage models suggest that organizations develop around a number of discrete, sequential stages that loosely fall into pre-venture, start-up, growth, and maturity. Some models focus on the early pre-venture stages of new venture creation, and these tend to include the activities of opportunity recognition, resource acquisition, and opportunity exploitation (Bhave, 1994; Hills, Lumpkin, & Singh, 1997; Shane & Venkataraman, 2000). Opportunity recognition, either externally or internally stimulated (Bhave, 1994), is followed by opportunity exploitation that is dependent on the acquisition and combining of resources. The models tend to list the activities associated with each stage, although the allocation of activity to stage, the point when an organization is perceived to have been created, and the point of transition between different stages vary between models.

Other models consider poststart-up activities, such as those of Greiner (1972) (inception, survival, growth, expansion, and maturity); Churchill and Lewis (1983) (existence, survival, success, takeoff, and resource maturity); Scott and Bruce (1987) (inception, survival, growth, expansion, and maturity); Chell, Haworth, and Brearley (1991) (poststart-up, established, and professionally managed); Bolton (1997) (prestart-up, embryo, nurture, fledgling, and mature); and Flamholtz and Randle (2000) (new venture, expansion, professionalization, consolidation; and for continued development postmaturity: diversification, integration, decline, and revitalization). These models usually identify activities, resources, and managerial issues associated with each stage.

Stage models have several limitations (Storey, 1994). First, they assume that businesses start at the same stage and develop in an evolutionary (Kamm & Nurick, 1993) or sequential manner, even though transition between stages is not automatic (Bhave, 1994) and some may arrest their development before reaching maturity. Second, they assume that management styles naturally develop according to the stages, and again, this is not certain. Third, they assume that movement between stages is triggered by a specific crisis, although in reality the borders between each stage are more likely to be blurred. Although stage models serve a purpose in that they identify the characteristics and activities of the phases of venture creation and development, their descriptive, rather than predictive, nature has led to an alternative approach that considers understanding the factors influencing growth as more useful than identifying the stages of growth (Storey, 1994).

Networks and New Venture Creation

While most models of new venture creation tend to focus on internal activities and operations, the act of creating on organization is socially embedded and does not occur in isolation (Carsrud & Johnson, 1989). The entrepreneur's network of social relations and interactions is central to the entrepreneurial process (Aldrich & Zimmer, 1986; Birley, 1985; Chell & Baines, 2000; Dubini & Aldrich, 1991).

Networks have been found to be important in business development since they provide a context through which the venture gains additional resources (Adler & Kwon, 2002; Bruderl & Preisendorfer, 1998; Carsrud & Johnson, 1989; Granovetter, 1982; Hansen, 1995; Johannisson, Alexanderson, Nowak, & Sanest, 1994; Putnam, 2000; Starr & Macmillan, 1990), knowledge (Brown & Butler, 1993; Floyd & Wooldridge, 1999), information (Birley, 1985; Granovetter, 1982; Smeltzer, Van Hook, & Hutt, 1991), and experience (Thrift, 1996). In the process of venture creation, the totality of a network probably consists of members who vary in their importance to the entrepreneur and organization. Commonly, a subset of network members who can be drawn on for specific needs will emerge (Barnes, 1969; Brown & Butler, 1993; Butler & Hansen, 1991; Granovetter, 1982).

Network activities have been found to vary by the stage of venture creation (Chu, 1996). In the early phase of pre-venture creation, connections with those who share an interest in the purpose of the business and those with experience in creating a business will be sought (Nohria, 1992). Since the knowledge base and skill set of the organization is bounded by the network, more members might be recruited to increase these assets. Network connections have been found to be useful for testing ideas and gaining support (Kamm & Nurick, 1993) and in later stages, the network becomes an important access route to acquire more resources (Carter et al., 1996). The size of the network is likely to reduce (Greve & Salaff, 2003) as the most useful members increase in importance, and it is likely that different networks will be needed (Falemo, 1989) as the entrepreneurial organization takes shape and begins to grow. Their constitution will change (Davidsson & Honig, 2003) to bring in the necessary resources, information, skills, and experience. For these reasons, networks should be incorporated as an indigenous element in new venture creation models.

Social Ventures

The majority of research investigating venture creation and networks in the entrepreneurial process has been conducted in the private sector. This is not surprising given the relative size and importance of the private sector, as well as the government's interest and support for business start-up and growth. Enterprise is regarded as a crucial determinant of economic growth and development (Drucker, 1985) and, as a wealth producing activity (Ronstadt, 1984), entrepreneurship has a long association with economic gains (Kilby, 1971; Kuratko & Hodgetts, 1995).

Recently, however, U.S. and European interest in the enterprising activity of the nonprofit sector at policy level has increased due to its potential to generate social and/or environmental benefits in addition to economic gain. In the U.K., this has culminated in the establishment of a Social Enterprise Unit at the Department of Trade and Industry, and the publication of a Social Enterprise Strategy (Department of Trade and Industry, 2002). It is also reflected in a small, but growing, amount of academic research into social ventures.

The main purpose of a social venture is not the maximization of profit but the pursuit of economic, social, or environmental goals, or a combination of these, to alleviate social exclusion and unemployment (Organisation for Economic Co-operation and Development, 1999). While some social ventures, such as The Grameen Bank and The Big Issue, are established as for-profit, many are established as nonprofit organizations with charitable status that prevents them from distributing any surplus to those with a controlling interest in the venture. This *nondistribution constraint* is a defining characteristic of the nonprofit organization (Hansmann, 1980): Any surplus generated by the nonprofit social venture must be retained and employed to further the aims of the enterprise. It may be reinvested in the venture for further resource acquisition or organizational development, or distributed as grants to local people or communities. The extent of trading varies between social ventures—some are financially sustainable from trading whereas others rely on a combination of earned income, service delivery contracts, grants, and donations. By using entrepreneurial solutions to achieve social outcomes rather than shareholder profit (Westall, 2001), social ventures play a valuable role in creating a potentially sustainable and socially inclusive economy.

Although social ventures share the social and/or civic orientation of other nonprofit organizations, they differ in terms of their strategy, norms, and values (Dart, 2004). Since they use market-based solutions and businesslike models to pursue commercial and financial sustainability (Mort, Weerawardena, & Carnegie, 2003), they differ from the majority of nonprofit organizations that traditionally rely on philanthropic donations for their income. It is not uncommon, however, for a social venture to start out as a voluntary group, and many operate in conditions of market failure where their nonprofit status enables them to draw on resources that would not be available to for-profit enterprises, such as volunteers and assets received by donation. The distinguishing characteristics of community-led social ventures are their ownership, control, and use of trading surplus (Hayton, 1995). They are owned and controlled by the members of the community where they are based, and any financial surplus is either reinvested in the venture, or used to support other ventures that further enhance community benefit. Table 1 compares for-profit enterprises with nonprofit, social, and community-led ventures.

To illustrate, Emmaus is a worldwide secular movement dedicated to the principle of helping homeless people help themselves. It is structured around the creation of living and working communities that each have their own financially sustainable businesses. Most communities earn money from the collection and resale of donated goods, refurbished and repaired furniture and electrical goods, and recycling projects. After paying their own costs and expenses, the Emmaus philosophy of each community is sustained by using any surplus to help others in need (http://www.emmaus.org.uk).

Table 1

Comparison of Entrepreneurial Ventures

	For-profit venture	Charitable venture	Social venture	Community-led social venture
Mission	Market driven Economic value Financial surplus	To pursue charitable purpose	Economic, social, and/or environmental value	Economic, social, and/or environmental value for the local community
Target market	Market demand Individual benefit	Disadvantaged individuals, community, and/or society Collective benefits	Disadvantaged individuals, community, and/or society Collective benefits	Disadvantaged individuals, community, and/or society Collective benefits
Source of capital	Commercial debt, equity, venture capital, retained profit	Philanthropy, donations, grants, sponsorship	Commercial debt, philanthropy, donations, grants, sponsorship, retained surplus	Commercial debt, philanthropy, donations, grants, sponsorship, retained surplus
Entrepreneurial activities	Trading to generate profit	Individual projects to achieve mission	Trading to achieve mission and generate surplus	Community projects and trading to achieve mission and generate surplus
Human resources	Employees	Employees and volunteers	Employees and volunteers	Employees and volunteers
Other resources	Purchased at market rate	Purchased at market rate, or at below market rate, donations	Purchases at market rate, or below market rate, donations	Purchases at market rate, or below market rate, donations
Governance structure	Owners, executive board	Board of trustees	Board of trustees	Board of trustees, representative of community stakeholders
Accountability	Board of directors, shareholders	Board of trustees, stakeholders	Board of trustees, stakeholders	Board of trustees, community stakeholders

Source: Based on Dees (1998) and extended for this article.

In the nonprofit sector, the process of creating a social venture has been described as a distinct sequence of activities (see for example, Birkhölzer, 1999; Clark, 2000; Edwards & Jones, 1976; Flora, Sharp, & Flora, 1997; Milofsky, 1988; Stohr, 1990). Research has presented detailed descriptions of specific contexts wherein community-led social ventures have been created, such as Peredo's (2003) in-depth account of community-led entrepreneurship in three communities in rural Peru. Her study found that the community ventures were context-specific and were created in response to unmet demand, especially for basic social services. This article, however, aims to contribute to the gap in these accounts: the lack of exposition of pre-venture activities and the role of networks in the venture creation process.

Methodology

The research aimed to investigate community-led social venture creation. The study adopted an exploratory perspective and employed a qualitative approach (Bryman, 1988; Patton, 1990). Empirical data were gathered via in-depth interviews from five social ventures with multiple informants, participant observation, and document analysis between 1998–2001. Case studies were used to gain a deep understanding of a complex issue (Yin, 1989) and five were purposively selected in order to be able to conduct cross-case comparisons (Eisenhardt, 1989). The selection principles were that they were community-led, nonprofit, aimed to create employment as well as social or environmental goals, and were committed to exploring income generation. Since the purpose of the research was to study ventures in creation, data were collected at intervals that enabled developments over time to be monitored. This is fundamental to longitudinal research (Kelly & McGrath, 1988), and although there are no definitive time frames, the study is longer than the minimum of 1 year specified by Young, Savola, and Phelps (1991).

To facilitate cross-case comparisons, the social ventures recruited shared a similar environmental context and governance structure. Given the importance of environmental context for community-led entrepreneurship (Peredo, 2003), the study focused on ventures in two administrative regions in northeast Scotland. Region A (617 km^2) had a population of 35,742, with 10 established villages/towns and many scattered farms and settlements. It has suffered a fall in provision of key facilities and is eligible for European Union (EU) structural funding (Objective 2) due to its high dependency on traditional economic sectors. Region B (587 km^2), adjacent to region A, had a population of 39,160, dispersed across 15 established villages/towns, had also suffered a decline in provision of key facilities, and part of the region also benefits from EU Objective 2 funding.

The author took several months to create network contacts in the study region and to secure the participation of the individuals from the selected ventures. Although initially each of the ventures was little more than an idea in gestation, by the end of the study, each had acquired the defining characteristics of an organization: intentionality, resources, exchange, and boundaries (Katz & Gartner, 1988). Formal data collection began with a first interview of one informant from each social venture. Field notes were taken and interviews were recorded. The interviews were conducted either at the potential premises of the prospective venture or in the home of informants (some ventures did not yet have premises in 1998 and informants were involved with the ventures in their free time). The interview technique used open-ended questions to gather data about the inception of community-led ventures regarding origins, rationale, resource accumulation, strategy and tactics, fundraising, marketing, volunteer involvement, the major problems, critical incidents, and future plans.

After the first interview, the author secured the commitment of informants to the longitudinal study and permission to attend and observe community meetings, to visit the premises of each social venture when these had been acquired, to visit the homes of community members to interview other informants, and to access secondary and electronic data. The multiple data collection methods were used to triangulate the data collected. Triangulation strengthens the persuasiveness of data, enhancing the perceived validity of findings, and is useful for confirming the accuracy of data and corroborating conclusions.

At subsequent interviews, informants were asked to report key events that had taken place in connection with the emerging social venture since the previous interview. Probe questions were used to elicit information about activities, resources, people and connections, incidents, and problems. In this way, the fieldwork offered the author a unique opportunity to observe and record real-time (Aldrich & Baker, 1997) new social venture creation. The significance of this is enhanced by the rarity of longitudinal, qualitative studies of new venture creation in entrepreneurship literature.

Data Analysis

To analyze the empirical data, the technique of grounded theory (Glaser & Strauss, 1968) and the constant comparative method (Silverman, 2000) were used. All interview data were transcribed within 24 hours of collection, and analytical and theoretical memos were noted in the text by the author. The text was then analyzed and broken down into themes, and each of these was highlighted. The highlighted first-order themes were coded and the codes were compared for similarities and differences. Where similarities were identified, the first-order codes were grouped into second-order themes (referred to as categories by Strauss & Corbin, 1998) based on shared properties of first-order themes. The second-order themes were coded and then analyzed and reassembled into the clusters of activities forming the conceptual categories of the model. This process follows the coding principles of grounded theory. In addition, the first- and second-order themes from the first interview were used to structure comparisons with other informant accounts. When a new first- or second-order theme was identified in subsequent data, all previous transcriptions were reviewed for evidence that might have been overlooked.

Participant observation was used to gather direct evidence of the processes and activities involved in creating a new social venture, and was also helpful for developing and sustaining personal contact with the field. Field notes were written before and after periods of participant observation and were analyzed using the technique described previously. Secondary data and electronic data were initially analyzed using a template with coded categories for economic/social/environmental purpose, marketing, networks, stakeholders, and further contacts. After the clusters of activities had been identified from informant interviews and participant observation, the data from secondary sources were reanalyzed and, where applicable, added to the model.

The model developed describes how the new social ventures in the study were created, provides details about the activities involved in the process, identifies critical development points, and is potentially useful for predicting the process of future new social venture creation. The model is a representation of the process, however, belying the complexity that is characteristic of qualitative research and typical of an inductive approach wherein the researcher enters the field with the purpose of understanding the world from the informants' point of view (*verstehen*) (Bogdan & Taylor, 1975).

The Case Studies

The identities of the ventures studied have been concealed and they have been code-named Transport, Marina, Technology, Care, and Tourism.

Transport is a rural community bus venture. It carries fare-paying and subsidized passengers on routes to and from medical, social, and other rural and urban retail venues. The idea for the scheme emerged in 1993, and the venture was formally established in 2001 as a company limited by guarantee with charitable status. Over this period, Transport had grown from a voluntary group to an organization with assets (three buses), three employees, and an income from grants, sponsorship, and fares. By the end of the study period, the venture was working toward but had not achieved financial sustainability.

Marina is a community-owned harbor that had achieved financial sustainability by 2001 through the income from marina fees. While the idea for the venture had long been known to the community, action to create it was initiated in 1998 in response to the availability of funds for repair and refurbishment of the harbor where it is located. By 2001, the venture had been established as a company limited by guarantee with permanent employment for 1.5 individuals. Technology is a publishing and information communication and technology (ICT) training project. It was created to deliver low-cost computer training to increase the employment prospects and reduce the social exclusion of local people. In the early period of pre-venture creation, the project group was given a large amount of ICT equipment by the local authority that was installed in a building in a central location. It was used to establish a local information service (community web) and deliver training courses for which clients (individuals and commercial businesses) paid. The revenue from this was used to pay the running costs of the venture, to employ an ICT trainer and graphics specialist, and to purchase additional equipment. Although during the period of the study, the venture had strived to achieve financial sustainability, by 2001 it had reverted to being managed and run by volunteers.

Care is a multiproject venture located in a building acquired at below market price from the local authority in 1999. Its main activity and source of income is the provision of social care to disabled young people from the locality, specified in a series of long-term service delivery contracts. By 2001, Care had secured additional funding to modernize its premises, established a horticultural center, opened an arts and crafts business incubator, and started discussions with investors interested in establishing a community-owned wind farm in the village. The enterprise has created permanent full- and part-time employment opportunities locally and is financially sustainable from its own income.

Finally, Tourism is a multiproject venture capitalizing on the natural and historic assets of its locality to generate interest and attract tourists to the region. Although various *ad hoc* and unrelated events had been staged in the locality, by the late 1990s, volunteers had established a formal group to coordinate these activities. During the study period, Tourism had gained substantial funding to employ researchers and consultants, and it generated revenue from social and community festivals and events, and the sale of information and memorabilia. By 2001, however, it was still some way from establishing the planned for-profit residential and study center.

Results

The model of community-led social venture creation was constructed from the empirical data of five case studies. Activities have been clustered into six groups with two support networks—formal and tailor-made. (See Table 2.) Although progression through

Table 2

Community-Led Social Venture Creation

Stage	Activities	Networks
Opportunity identification	Recognition of a *felt need* within a community/society—one, or more, person(s) perceives that a need/opportunity exists. This might arise from internal and/or external sources: personal experience, local knowledge, formal analysis, stakeholder suggestions, action from local people, intervention by local authority.	Formal network, e.g., organizations with economic development responsibilities: central government, local authority, and community development workers in other communities. Tailor-made support network—created by those involved in individual community enterprises to meet their particular needs. Some members of the formal network will be discarded.
Idea articulation	The idea is verbalized and people begin to talk about it informally. Alternative ways of developing the idea to benefit the community/society are discussed. Tacit knowledge is drawn on to focus ideas. The threads of a network begin to take shape as ideas are discussed with others, e.g., community development workers, business advisers.	
Idea ownership	A group takes ownership of the idea, actively sharing information. Formal meetings begin to take place. A decision is made to act together as a community group (*intentionality*). The vision/purpose/mission of the social venture is determined. The first documents of the venture are created, e.g., minutes of meetings. Bank account opened.	
Stakeholder mobilization	Gathering of human, physical, financial, and technological *resources*. People and organizations are mobilized. A tailor-made network takes shape as some network members exit and others expand their greater role. Commercial ideas are formally evaluated. Additional documentation created, e.g., a feasibility study.	
Opportunity exploitation	The venture is created as a legally identifiable enterprise (*boundaries*) and begins business activities. Contracts are arranged with providers of resources (*exchange*). Decisions on responsibilities and allocation of tasks are made. Any training necessary to turn the idea into practice is organized and implemented. Professionalization of roles, responsibilities, structures, procedures and management. Control and accountability measures are established. Venture financing arranged: sources of finance identified, approached and secured.	
Stakeholder reflection	Collection of performance indicators, outcomes evaluated, and feedback to stakeholders through multiple media. Strategic decisions made concerning future direction of venture. At the end of venture—recycling and redeployment of any residual resources.	

these stages is not prescriptively sequential and the time spent in each stage varied, the general sequence of events and activities predicts a forward, stage-like process. The five social ventures are presented in the model framework in Table 3 and are described in the next section. Table 4 is a supplement to Table 3, and presents information about the two support networks for each social venture. The model identifies the stages in the process of nonprofit social venture creation from prestart-up to maturity, and expands on pre-venture

Table 3

New Social Venture Creation: Evidence from Five Case Studies

	Transport venture	Marina venture	Technology venture	Care venture	Tourism venture
Opportunity recognition	Demand for transport	Business potential of community owned harbor; tourist area	Donation of ICT equipment to community; demand for ICT training	Social care provision withdrawn from local community; demand for social care	Business potential of locally owned physical asset realized; tourist area
Idea articulation	Community transport scheme	Commercial marina	ICT training and web site services	Community-owned care services	Tourist and education center
Idea ownership	Community group created and agrees to meet regularly to further develop the idea. Notice of meetings posted in village. Minutes of meetings recorded.	Community group created and agrees to meet regularly to further develop the idea. Notice of meetings posted in village. Minutes of meetings recorded.	Community group created and agrees to meet regularly to further develop the idea. Notice of meetings posted. Minutes of meetings recorded.	Community group created and agrees to meet regularly to further develop the idea. Notice of meetings posted. Minutes of meetings recorded.	Community group created and agrees to meet regularly to further develop the idea. Notice of meetings posted. Minutes of meetings recorded.
Stakeholder mobilization	Community group meetings. Bank account opened. Feasibility study prepared. Employee/consultant hired to prepare feasibility study. Bank account opened.	Working sub group of Harbor Board created to develop the idea. Business plan created by sub group. Bank account opened.	Group meetings. Potential business clients identified and approached. Sources of funds to purchase additional ICT equipment identified. Bank account opened.	Group meetings. Funds raised to conduct a feasibility study. Bank account opened. Results of study are positive.	Group meetings. Funds raised to conduct a feasibility study. Bank account opened.
Opportunity exploitation	Transport venture created as a company limited by guarantee. Funds raised from grants. Contracts exchanged with suppliers. Buses purchased. Employees hired. Publicity leaflets printed and distributed to potential users. Income generated from fares and service agreements.	Marina Venture created as a Trust. Funds raised from grants to create the marina. Contracts exchanged with suppliers. Employee hired. Publicity leaflets printed and distributed. Publicity leaflets printed and distributed. Income generated from marina fees.	Technology Venture established as a community-led voluntary group, limited by guarantee. Funds raised from grants. Employee hired pro-rata to deliver contracts to business clients. Subsidized ICT training delivered to local community and business clients. Publicity via community newsletter. Income generated from tuition fees ICT services.	Care Venture created as a Trust. Employee hired to manage project development. Roles allocated to group members. Fund raising strategy developed and implanted. Publicity via community newsletter. Contracts exchanged with suppliers, architects. Future strategic plans developed.	Tourism Venture established as a community-led voluntary group, limited by guarantee. Funds raised from grants. Presentations made to other local groups. Publicity leaflets printed and distributed. Visitor center opened.
Stakeholder reflection	Feedback to community and stakeholders at local meetings, and via community newsletter. Plans made to raise funds to purchase second bus and build garaging.	Feedback to community and stakeholders, Harbor Board and community meetings, website, community newsletter. Plans made to expand, to reinvest funds in expansion of marina and facilities.	Feedback to community via community newsletter, community meetings and website. Plans made to raise funds to purchase additional ICT equipment.	Feedback to community via community newsletter, community meetings, press, and website. Service contracts agreed with local authority. Business incubator planned in association with Care Enterprise.	Feedback to community via community newsletter, community meetings, press, and website. Business plan prepared to build residential study center in association with Tourism Enterprise.

ICT, information communication and technology.

Table 4

Networks and Social Venture Creation

	Transport venture	Marina venture	Technology venture	Care venture	Tourism venture
Formal support network	Local authority, regional authority, central government, rural transport initiative, local enterprise company.	Local authority, European Union, member of Scottish parliament, media, community development employees.	Local authority, local enterprise initiative, local enterprise company.	Local authority, community council, member of Scottish parliament.	Local authority, local community development officer.
Tailor-made support network	Local community economic development group, local strategic partnership, rural transport initiative, member of Scottish parliament, community transport association, members of neighboring community bus venture, national lottery, community groups.	Local community development officer, European Union, local strategic partnership, local tourist board, harbor board, local landowner, employees at harbor in neighboring community.	Local authority, local strategic partnership, further education college, local enterprise company, other community groups, local businesses.	Local community development officer, local strategic partnership, member of Scottish parliament, local landowner, advisors from potential sources of funds, press, other community groups.	Local community development officer, local strategic partnership, other community groups.

creation where the formative actions tend to be volunteer-led and hidden from view, or invisible (Bhave, 1994).

Opportunity Identification

Initially, a potential opportunity for a venture is recognized within a community. It may be stimulated internally or externally, or both. Internal stimulation occurs when one or more persons, either acting individually or in association with others, perceive that there are unmet needs within their community. This may arise from personal experience, tacit knowledge, intuition, environmental forces, societal changes, or market failure. The potential demand for Transport, for example, was recognized by two local people in response to the lack of public transport in the area. The opportunity for Care was identified by local people in response to dissatisfaction with the existing provision of social care services that were perceived to be too distant, geographically, for local people. "The local people have seen that there is tremendous potential for the development of the building into something that is good for the community" (Care informant), and, "it has always been known that people wanted to come to the area and learn about the culture and history, so we thought we could do it" (Tourism informant).

External stimulation refers to the identification of an unmet need by an external agency, such as a local authority. The opportunity is then brought to the attention of the community either directly by appointing/informing economic development employees for the locality, or indirectly, by putting in place resources that could be employed to fill the unmet need. In Technology, ICT resources were given to each community simply by delivering them to a local community resource center. For Transport and Marina, information about the availability of financial resources (from the EU and government) was promoted by economic development employees. Although there are several ways in which opportunity recognition may be prompted, for the social venture to be created, the felt need must be acknowledged and owned by one or more persons from the community, and action initiated by community members. "We thought, if the harbor dies, the village will be the next thing" and, "the only opportunity we could see was the market for the leisure business" (Marina informant).

Idea Articulation

Over time, daily social exchanges between members of a community create opportunities for those individuals with ideas about how to address local needs to talk and share their motivation to act to help the community. Alternative business ideas to satisfy the felt need may be articulated, debated, and discussed in village environs, workplaces, homes, sport and leisure venues, and local shops, hotels, and markets. These interactions may be explained by a combination of serendipity and the strong social ties found in rural communities. Transport and Technology informants referred to discussions in a community center about how to establish their ventures while for Tourism, the initial conversations were held at social events and then in their homes. Care's discussions arose due to the closure of a local social care facility and informal social exchanges were held at the former premises and a local hotel. "We just sat around the table and said 'how can we get money into the harbor?' " (Marina informant).

The period of pre-venture discussions may last for months or even years before a recognizable group of people with mutual interest in a core problem, idea, opportunity, or possible solution begins to coalesce. "We're building on ideas from 100 years ago" (Tourism informant).

This leads to more formal arrangements, such as specific meetings to bring interested parties together. The first formal meeting of the group signals the roots of idea ownership and establishes the identity of the nascent venture. The foundations of a boundary are created, although this is both open and permeable to new members. The first meeting also signals an intention to act and is the starting point for resource acquisition. In this study, the first formal meetings were held in the evening in either a home (Tourism), community center (Transport, Technology, Care), or at the proposed premises (Marina). "This is an area that needs development, there's lots of people with ideas and they just need help to turn them into something that is going to be good for them, and for us" (local authority employee).

Idea Ownership

One of the first resources for the germinal venture is knowledge. Initially, existing knowledge in the group is pooled, then knowledge gaps and information needs are identified, potential sources of information and network contacts are noted, and the task of consulting them is negotiated and allocated to group members. The level of knowledge in the nascent venture is therefore bounded by the limitations of the members of the group. "The local people got together, and said 'let's form ourselves into a group.' We will raise the money to renovate the building, but then we keep it and do what we want" (Care informant). "It's all about developing the links with other groups and organizations" (local authority employee).

The case study ventures all consulted formal sources of information after those at the first group meeting became the first formal network members of each venture: the local authority, business advice center, enterprise agency, economic development organization, and local parliamentary representative. Information sources were consulted to expand the network further by introducing more contacts. During the process of information gathering and networking, through interpersonal exchanges, informal sources of information were also drawn into the network. "At the start, you're working with, helping, the volunteers, uplifting from below but then the language shifts and they talk about 'what we want to do'—they are making the decisions" (community development employee, Region A) and, "the people who live here need services, and they also need jobs, but they have got to do this themselves" (local authority employee).

Stakeholder Mobilization

Over time, a pattern of regular meetings between members emerges: some ideas and suggestions are eliminated, and the nascent social venture coalesces around a favored solution that can be turned into a business proposition. Tourism, for example, initially wanted to create a residential study center, though projected lack of commercial viability led to postponing this until the market had been tested with the establishment of a nonresidential information and study center.

Eventually, the pre-venture group gathers sufficient momentum to establish a formal group that takes formal ownership of the idea and organizes itself into a recognizable social venture with its own name and defined purpose. Although the boundaries of the group are still permeable, in this study the level of commitment from members of the group could be seen by others in the community and, to them, the permeability of the venture's boundary appeared to reduce. "The first meeting was an open meeting, to try and get volunteers involved," and, "you needed a core group to be prepared to come in at least once a week, and to do an awful lot at home as well" (Technology informant).

At this stage, a realistic assessment of the true business potential and market feasibility of the proposed social venture is needed: a feasibility study or business plan is commissioned or prepared by the group. In common with for-profit entrepreneurship, the preparation of a feasibility study or business plan is a critical incident in new venture creation. If specialist help is needed to construct an objective and realistic forecast for the proposed social venture, funds may be required to pay for this. As the members do not invest their own funds in the venture, this will incur fundraising activity. “The whole project had to be costed and we had to raise the money to get it going” and, “all the business principles apply, even though we are not making a profit” (Transport informant).

The nascent social venture reaches another critical incident at this point since a bank account is needed for the receipt of financial resources and alternative legal structures need to be evaluated. If the group decides to continue with its plans, it progresses to the stakeholder mobilization stage, wherein a name and identity are created, a memorandum of agreement is made, and a bank account is opened. Those members of the formal network who have not proved their worth in terms of contributing resources are discarded. More frequent interactions help to build stronger relationships with those who remain and become members of the tailor-made network. The network filter operates to refine the network to members that are useful in terms of contributing to the furthering of the organization’s purpose. The tailor-made network is also extended to include other individuals and organizations that each contribute something of value to the social venture, such as resources, knowledge, information, or expertise. “It is incredible, the skills people have, and what they can bring” (Care informant).

Opportunity Exploitation

In the event that the business case can be successfully made for the new venture, members of the emergent enterprise must decide whether to put the plans into action or not. If in favor, a specified legal format, a business constitution, and a governance structure will be needed. The new, identifiable organization can then take ownership of the resources garnered to start business operations and the formalization of roles, responsibilities and tasks will be negotiated (Care appointed a full time Chief Executive and allocated publicity and fund raising to specific individuals, Marina employed a permanent manager, and Technology appointed a part time trainer and web designer). “Once they have their own money, they are on the frontline” (community development employee).

Accountability measures and procedures are established—these are especially important for reporting to the community stakeholders who are involved with the venture, either as providers or consumers. The group makes plans to raise finance from different sources, to generate income, and to grow the business through asset acquisition and commercial trading (Marina sought expert help to apply for funds to renovate the harbor and Care entered into discussions with the owners of an asset to acquire it at below market price that lasted for more than 2 years). Once the arrangements are in place, the new venture moves on to implementation of its plans and delivering its combination of social, economic, or environmental outcomes. “The whole project took between 12 to 18 months to get going” (Marina informant) and, “We invite people along to all our meetings, so that we can use them, use their expertise, and we can keep them abreast of what we are trying to do” (Care informant).

Stakeholder Reflection

Once established and running as a social venture, the community-led governance structure imposes a duty to report to stakeholders, providing them with the opportunity to evaluate the performance of the social venture. Information is given directly and indirectly. For example, Care holds an open meeting for its trustees and members every month, Marina reports back to the Harbor Board every month, whereas Tourism, Transport, and Technology hold open meetings less regularly. Care and Marina publish their achievements on their own website and Tourism, Transport, and Technology present a summary of their progress in a monthly newsletter delivered to every home in the locality. Stakeholder reflection informs the future development of the venture that is then reported back in a continuous cycle of cooperation and adaptation. "We are working for the community, not for ourselves." And, "it is a success when everyone is committed" (Transport informant). "We keep our website up to date with what is happening, to keep everyone involved" (Tourism informant).

Insights into New Venture Creation

The empirical case studies presented in Table 2 illustrate the activities and critical incidents in each stage of the model for each case study. The data offer useful insights into the process of nonprofit social venture creation and the structure of entrepreneurial networks. It is evident that in each social venture, the initial opportunity was recognized by a combination of internal and external stimuli. Economic development agencies can therefore play an active role in community regeneration by sensitively suggesting and promoting enterprise development ideas. In order for the venture to be created, however, an identifiable group must coalesce around a potentially viable business opportunity.

Although the idea for the venture may be promoted from outside the community, the plunge decision (Sarasvathy, 2004) must be made by members of the community. It is likely to be made when the enterprise is controlled and managed by volunteers and relationships are based on trust. The importance of trust in early commitments and agreements supports the notion that community-led regeneration through social venture creation is an embedded process. This was also found by Peredo (2003) who noted that the ideas for community-led social ventures are embedded in the community and then adapted to the creation of business opportunities.

The model proposed in this article explicitly identifies the pre-venture activities of informally—and then with increasingly formality—generating and sharing alternative ideas for action between community stakeholders. The process is one of filtering competing ideas into one idea that gains the most support. This is very like the process of effectuation described by Sarasvathy (2004), wherein an entrepreneurial idea is shaped by choosing between different means to create desired outcomes. It is also similar to the process of advancing from an initial vision into an elaborated vision where an idea is evaluated and refined to a level where anticipated problems are overcome and potential benefits maximized (Low & McMullan, 1984). The process of creating a nonprofit social venture may appear similar to that of creating a for-profit venture although the distinctive features of nonprofit venture creation are the use of resources not available to for-profit ventures, the longer time scale, and the greater number of stakeholders involved in the process. In addition, if the social ventures in this research failed, they would not incur financial loss for the stakeholders, whereas this is unlikely to be the case in for-profit entrepreneurship.

Idea ownership precedes the construction of a resource base that is initially performed via networks. Stakeholder engagement and support is created and maintained via stakeholder consultation and direct and indirect feedback about achievements. This is essential to ensure that the continued effort of community members is sustained so that the venture progresses to generating its own income from trading. Although the gestation period of social ventures appears long, this is not necessarily dissimilar to for-profit enterprises.

While the activities outlined in each stage have similarities to those included in the stage models presented earlier, they differ in relying primarily on volunteer action that ebbs and flows with time and individual interest. This might be contrasted to the purposeful drive and motivation of the individual for-profit entrepreneur. In addition, the noneconomic rewards of volunteering, and the nondistribution constraint of nonprofit enterprises, contrast with the economic returns for effort earned by the individual entrepreneur. If the creation of more nonprofit social ventures is to be encouraged, the resource demands of the pre-venture stages must be accommodated in policy.

Additionally, although the professionalization of the management and administration of the new venture is found in the stage models presented earlier, specific to social ventures are the implications of managing volunteer labor without a formal contract of employment, and the risks to which volunteers are exposed when they accept responsibility for the financial resources of the new venture wherein they have no, or limited, ownership rights. The point when the enterprise receives its first funds is therefore critical for the new venture in creation, signaling its movement from a volunteer-led to group to a social venture with its own financial resources, assets, and employees. This professionalization process may take some time, with major implications for the management and culture of the new venture that can no longer rely on the informal structure, work patterns, and arrangements of a volunteer-led group. Thus the properties of a new venture identified by Katz and Gartner (1988) might be extended to include the establishment of the shared values that define the culture of the enterprise.

The two network structures identified in the study were found to assist the creation, development, and growth of the social venture. Initially, opportunity recognition and idea articulation originate from the strong ties within the community and the weak ties with formal organizations. The formal network created in the pre-venture stages is similar to the formal networks consulted by new enterprises in the private sector. The formal sources of business advice, however, were found to be of little value to the case studies. It is submitted that the hybrid strategies of social ventures that combine economic, social, or environmental goals, mean that standard, off-the-peg business advice is unsuited to their needs and tailored information would be more appropriate. Over time, as the value-adding capabilities of each network member is realized in the extent to which they contribute resources, knowledge, information, and useful experience, the structure of the network changes. Members of the formal network who add value are retained, others are discarded, and new members are recruited to meet specific resource needs. The process of constructing a value-adding network occurs continually and simultaneously with the development of the social venture. It therefore forms an explicit part of the model, and in practice should be adequately resourced as part of new venture creation and business development.

The model is based on similarities between the case studies and accommodates differences in the rate at which the ventures progress through the six stages. During the study period each of the ventures had passed through the stages at least once. In terms of venture performance, Marina and Care had been able to achieve financial sustainability, Transport and Tourism had achieved consistent increases in trading income and both were still striving for financial independence, however Technology had not been able to achieve this goal and had reverted to voluntary group status. The model is thus sufficiently generic to accommodate variation in venture performance. In relation to networks, evidence to support the construction of a tailor-made network and consistent evaluation and re-evaluation of the usefulness of network members, was found in each of the case studies. However, differences were noted in the size of networks, the frequency of interaction between network members, and the extent of active management of network relationships. The size of a network would appear to be less important than the usefulness of network members, and scarce resources conserved by active management of productive network relationships that bring resources, knowledge, information, and experience to the venture.

Although stage models have been criticized by Storey (1994), they are useful in that they indicate the behavioral and managerial changes needed for the organization to move to the next stage, as well as the problems, possible solutions, and increasing professionalism required as the organization develops (Chell, 2001). Focusing on how new ventures are created and developed serves as a useful reminder that many promising organizations never realize their potential. Often they fail due to lack of support and development of an infrastructure, or inability to achieve sustainability (Aldrich, 1995). The model thus has the potential to help social ventures avoid causes of failure.

Conclusion

This study is one of the first to examine the inception of community-led social ventures that have pursued entrepreneurial strategies. Empirical evidence from five detailed case studies has been employed to develop a model of the activities, critical incidents, and networks involved in the creation of these ventures. The findings provide a novel insight into entrepreneurship in nonprofit organizations originating as voluntary groups and then developing strategies that are commercial and generate revenue. The contribution of nonprofit organizations to economic, social, and environmental regeneration and renewal makes a valuable addition to society, although their traditional reliance on philanthropy and donations promotes a culture of dependence and may constrain strategic growth. It also incurs a bureaucratic cycle of preparing and submitting grant applications and reporting to financial stakeholders that is both time consuming and resource intensive. Community-led social ventures that generate income from exploiting entrepreneurial opportunities offer a potential solution to these problems while simultaneously promoting values of independence and autonomy.

The model may be of interest to policy makers, particularly in terms of the pre-venture activities of opportunity identification, idea articulation, idea ownership, and stakeholder mobilization. The pre-venture stages are hidden from view, for the large part financed and made possible by the unpaid efforts of the community. Similarly, the creation of useful and value-adding network members takes place in the background of each social venture and constitutes another hidden activity. If it is the intention of the government to promote the growth of social enterprise, and this is clearly the case in contracting out public service delivery in the U.K., then unpaid investment of time and resources should be built into the new models of service delivery.

This study offers a potentially wide range of opportunities for future research. The model presented is weighted toward the early stages of venture creation, and future research could extend, and elaborate on, the opportunity exploitation and stakeholder reflection stages. It might consider how the culture of a nonprofit social venture is created, the values that are distinctive to nonprofit ventures, and how those values are influenced by strategies that are more frequently found in for-profit ventures. It might examine how the outcomes of social ventures are created and whether standardized techniques to evaluate and enumerate outputs and outcomes could be created. Further research could also analyze the structure, role and contribution of social venture networks, and specifically, how business information and advice might be better delivered to nonprofit enterprises engaging in trading activity.

Finally, the distinctive goals of social ventures combine economic with social or environmental outcomes. Research might explore the influence of the environmental context on opportunity identification and strategy implementation. In resource-poor, rural locations, opportunities appear to be oriented toward filling market gaps created by market failure. Further research might explore nonprofit social ventures in affluent rural areas and urban locations, for-profit social ventures, and social ventures that have expanded service delivery to mainstream markets. This could uncover valuable strategies to bring further benefits to thin rural markets.

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